Background on Electric Utility Business in Michigan
Or "How we got to where we are today"
February 17, 2009

The electric utility industry came under state regulation in the early 1900's

- "Regulatory Compact" was created

Electric utility structure was typically vertical integration with generation, transmission and distribution all owned and operated by the utility

Federal Power Act (1934) and the federal Public Utility Holding Company Act (1935) were enacted

- Federal regulation of wholesale transactions including interstate transmission
- PUHCA required utilities to focus on core utility business

1970's and 1980's

- Power plant cost over-runs of 70's and 80's lead to high electricity rates
  - Primarily nuclear
- Overbuild in same period created an over-capacity situation for electric generation

1980's and 1990's

- Industrial customers argued they shouldn't have to pay for "mistakes" of utilities and sought relief through competitive options – retail wheeling

- Natural gas, previously prohibited for electricity generation, due to limited supply and higher uses (home heating and manufacturing), appeared to be plentiful, cheap, and the cleanest fossil fuel

- Federal Energy Policy Act of 1992 set the stage for competitive generation with the expectation that virtually all new generation would be natural gas

- Federal Energy Regulatory Commission and U.S. DOE develop models for competitive wholesale electricity markets with several key concepts:
  - Geographically rational regional markets
  - Common rules geared toward non-discriminatory access and pricing of transmission
  - Independent grid and market operator – MISO and PJM
  - Electric markets were premised on cheap and plentiful natural gas-fired generation and non-discriminatory transmission access and pricing

1990's and 2000's

- Michigan embraced market concepts as alternative to comparatively-expensive utility generation
- Large build of natural gas-fired combustion turbine generating facilities
  - Virtually all were peakers-only
  - Many were never completed
  - Virtually all filed bankruptcy when natural gas prices went up

2000's

- PA 141 passed and enacted
  - Hybrid part-regulation and part competition - "Choice for those who want it and protection for those who don't"
  - Natural gas became scarce and expensive due to ever increasing demand in the face of tight supply, with several significant supply disruptions
  - Michigan's hybrid model yielded lowest rate increases among deregulated states and competed favorably with regulated states
  - In recent years, fewer customers exercised choice due primarily to natural gas prices

Blackout of 2003

- Wake-up call on reliability
- Wake-up call on wholesale power prices

Michigan Response

Capacity Need Forum (CNF) – Determined that Michigan needed to develop new generating resources due to 1) reliability concerns, 2) prospect for capacity shortages, and 3) cost risk of securing necessary capacity and energy from the wholesale market. With the exception of natural gas, conventional fuels were relatively stable in the period of CNF study (2005).

21st Century Energy Plan – Further refined and expanded on CNF study by modeling generation, transmission, energy efficiency options, renewable and alternative energy opportunities, and by making firm recommendations on forward-looking energy policy

- Forecasting demand and reliability
- Meeting electricity needs
  - Building base load capacity (CoN w/IRP)
- Renewable an alternative energy options (RPS)
- Energy efficiency program

Comprehensive Energy Legislation - PA 286 and PA 295 of 2008

PA 295

- Renewable Portfolio Standard
- Energy Optimization
- State Government Energy Efficiency and Optimization
- Wind Energy Resource Zones
- Net Metering

PA 286

- File and Use Rates
- Merger and Acquisition Review Authority
- Certificate of Need for New Generation – Integrated Resource Planning
- Limits on Customer Choice
- Rate Alignment with Cost of Service (Deskewing)